

DEPARTMENT OF HEALTH & HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
75 Hawthorne St., Suite 408  
San Francisco, CA 94105



**San Francisco Regional Office**

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August 13, 2003

Stan Rosenstein, Deputy Director  
Medical Care Services  
California Department of Health Services  
714 P Street, Room 1253  
Sacramento, CA 95814

Dear Mr. Rosenstein:

CMS has completed its review of California's May 13, 2003 request to grant a renewal of the Intermediate Care Facility for Persons with Developmental Disabilities – Comprehensive Nursing (ICF/DD-CN) waiver under section 1915(b) of the Social Security Act. After analysis of the State's request and supplemental materials, we find that additional information is required. All waiver requests under section 1915(b) of the Act require the State to document the cost-effectiveness and quality of care of the ICF/DD-CN waiver program, and its projected impact on the Medicaid program (42 CFR 431.55(b)(2)).

Pursuant to the provisions of Section 1915(f)(2) of the Act, the request for additional information (RAI) enclosed stops the 90-day clock for rendering a final decision on whether or not to approve the State's waiver request. If you have any questions, please contact Rick Spector at (415) 744-2978.

Sincerely,

/s/

Linda Minamoto  
Associate Regional Administrator  
Medicaid and Children's Health Division

Enclosure

cc: Teresa A. Pratt, Director, Division of Integrated Health Systems (DIHS)  
Bob Bonkowski, Chief, Freedom of Choice Unit, Medi-Cal Policy Division  
Roberto B. Martinez, Chief, Medi-Cal Policy Division, DHS  
Mary Pat Farkas, CMSO/DIHS

## **CMS COMMENTS ON THE CALIFORNIA ICF/DD-CN WAIVER REQUEST**

### **Cost Effectiveness**

1. The latest cost effectiveness (CE) submission shows a program that was not CE during its first two years. While the projection periods in the submission are shown to be CE, we would like additional information on program changes (assessment methodology, payment rates, and outreach strategies) that we believe will be necessary for this program to be CE and have sound payments during the renewal period. We would like additional information on the following points:

- a) Most of the participants entered the program from a prior place of service that was a lower paid and lower level of care. Has the assessment tool been evaluated to determine if it correctly identified individuals appropriate for the level of care in the waiver program?

Did the assessment tool incorrectly permit lower need participants to enter the program? Should the assessment tool be refined so that in the future it would be more selective or should there be additional rate categories developed with perhaps less nursing care for individuals with lower level of care needs? What actions would the State propose to test or evaluate the tool? What steps would the State propose to refine the tool?

- b) Please provide an explanation of the derivation of the current rate structure of the program as it was used during the first 2 years of the waiver program and as it will be used in the future. Has the rate structure been evaluated for its appropriate compensation of the waiver provider for the care needed by waiver participants? Are facilities being over paid for the care required by waiver participants transferring into the waiver from CIF/DD-N levels of care?

In the interest of demonstrating cost effectiveness, what consideration has been given to revising the rate structure based on a more refined analysis of the services that participants require (e.g., development of more than two rate categories based on intensity and type of services utilized)? If the State decides to utilize this process to better control program costs, please provide an action plan including critical steps in the rate development process and anticipated time frames for their completion.

- c) Please provide a discussion or proposal for an action plan that would explain the efforts and strategies that will be used over the next two years to increase participant enrollment and attract more enrollees from higher cost institutional environments.
2. Is the “without waiver” (WOW) trend line being inappropriately determined? Should there be adjustments to the WOW trend line to reflect correctly serving the health care needs of the waiver participants that come from a lower level of care such as the ICF/DD-N? For instance, was the prior place of service such as the ICF/DD-N unable to adequately serve

these waiver participants and, therefore, should the WOW trend line be increased to reflect the improved service delivery in the waiver program?

3. The case mix (distribution of “before” waiver enrollment residence types) deviates substantially from the State’s original projections and has impacted the cost effectiveness of the waiver during the initial approval period. What methodology was employed in developing the projected case mix for the proposed renewal period and what is the basis for any projected changes from the current case mix distribution? How will the State monitor the patient case mix and cost effectiveness of this program during the next 2 years?

It is anticipated that the State will be required to provide this information to CMS on a semi-annual basis as a condition of renewal of this program. The State should discuss its readiness/preparation for using the Medicaid Budget Expenditure System (MBES) system.

4. On page 2 of the renewal application, the State notes that the waiver program is potentially achieving cost savings by decreasing participant utilization of expensive emergency room, acute care, and developmental center facilities. Has the State been able to quantify these cost savings? Please provide detailed analysis/calculations to support the summarized base, state plan and savings amount presented in the revised CE.
5. The cost effectiveness analysis indicates that the waiver “administrative” expenses “were estimated by using 1.25% of the total Federal Financial Participation (FFP) yearly allocation for California’s administration of Medi-Cal using State fiscal year (SFY) 2002/2003 figures.” The State must refine this analysis utilizing actual data on the administrative expense of this program and provide an explanation for the basis of this expense determination. The State must also explain the “administrative” expenses estimated by using 1.0 percent for WOW costs.